

**PRELIMINARY POLICY LESSONS FROM
JAMAICA'S TWO RECENT DEBT EXCHANGES**

Brian Wynter
Governor, Bank of Jamaica

High Level Caribbean Forum in Nassau, The Bahamas,
on
'Building Growth into the Caribbean Sustainability
Agenda - A Concerted Approach'
19-20 September 2013

Payoffs to (Government, Creditors) in the Non-Cooperative Debt Exchange

Government	Creditors	
	Participate	Holdout
	Exchange Offer	(50, 50)
Default	(60, 20)	(40, 40)

Payoffs to (Government, Creditors) in the Cooperative Debt Exchange

Government	Creditors	
	Participate	Holdout
	Exchange Offer	
Exchange Offer	(90, 90)	(10, 10)
Default	(10, 10)	(10, 10)

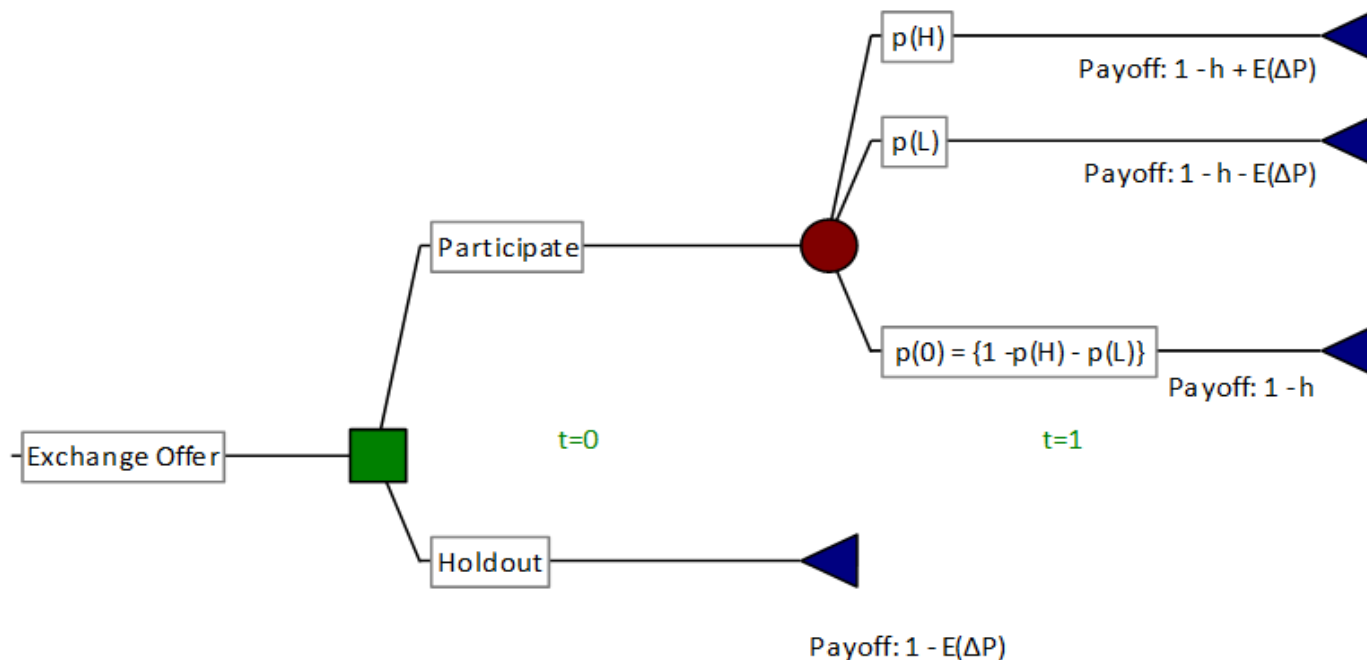
Carrots and Sticks for JDX and NDX

Carrots	JDX	NDX	Provides Strong Incentive to Participate by Individual Bondholder?	Sticks	JDX	NDX	Provides Strong Disincentive for Holdout by Individual Bondholder?
1. Goodwill from announcement of sponsors at public launch	Yes	Yes	No	1. Negative market perception of institutional holdouts	Yes	Yes	No
2. Access to FSSF for liquidity and solvency support	Yes	Yes	No	2. Call option in Old Bonds	Yes	No	No
3. Financial sector consultation on exchange structure and new instrument types	Yes	Yes	No	3. Lower coupon instruments on offer post-exchange relative to coupon offered in exchange	Yes	Yes	No
4. Fair value gains and lower interest from anticipated reduction in BOJ signal rate	Yes	Yes	No	4. Deep haircut for LOLR support from BOJ for holdout institutions	Yes	Yes	No
5. Increased liquidity of New Bonds and establishment of a yield curve	Yes	No	No	5. Two-stage negotiation structure	No	Yes	No

Carrots and Sticks for JDX and NDX (cont'd)

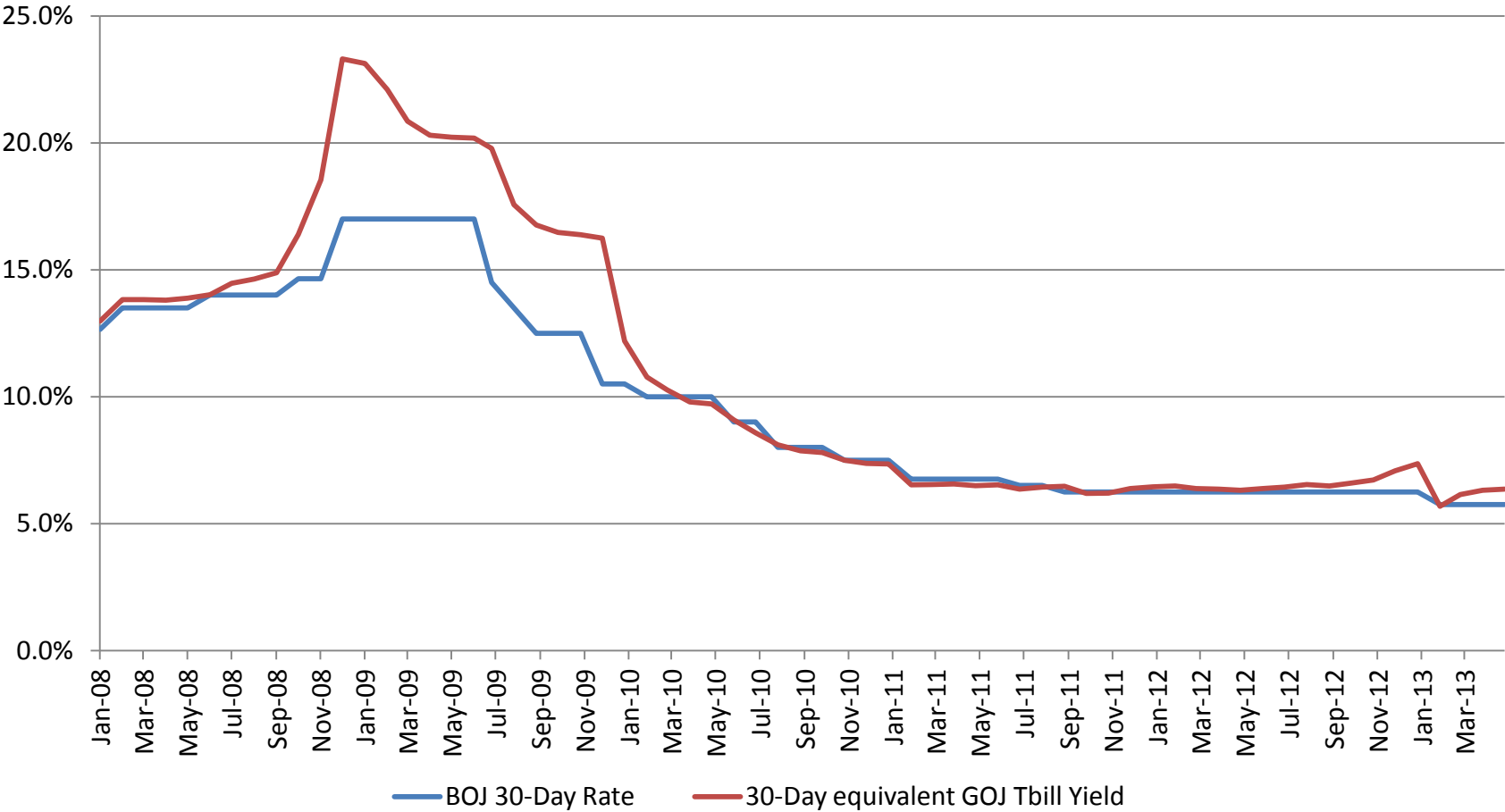
Carrots	JDX	NDX	Provides Strong Incentive to Participate by Individual Bondholder?	Sticks	JDX	NDX	Provides Strong Disincentive for Holdout by Individual Bondholder?
6. Special lower coupon short-term instrument for retail investors	No	Yes	No	6. 100% minimum participation threshold set	Yes	Yes	Yes
7. Greater public sector burden relative to private sector bondholders	No	Yes	No				
8. Formal private sector governance arrangement	No	Yes	No				
9. Put option in New 'Special' Bonds for large bondholders	No	Yes	No				

Decision Tree for Individual Bondholder with Binding Constraint of 100% Minimum Participation Rate



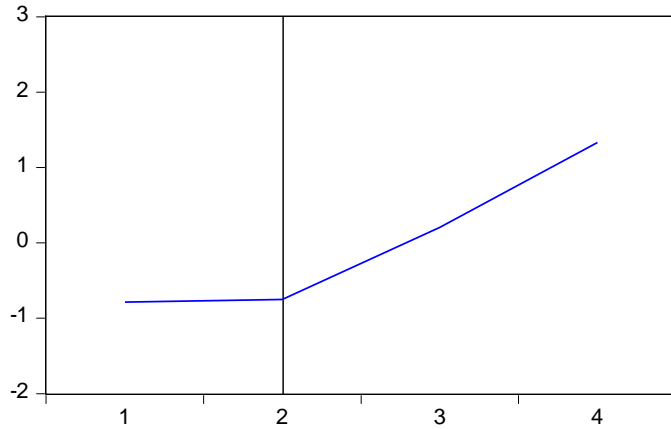
Solution for upper bound on haircut consistent with the expected payoff from 'Participate' being greater than the expected payoff from 'Holdout' is $h \leq \{1 + p(H) - p(L)\} \times E(\Delta P)$

Evolution of Jamaica Treasury Bill Rate and Central Bank Policy Rate (2008:01 to 2013:04)

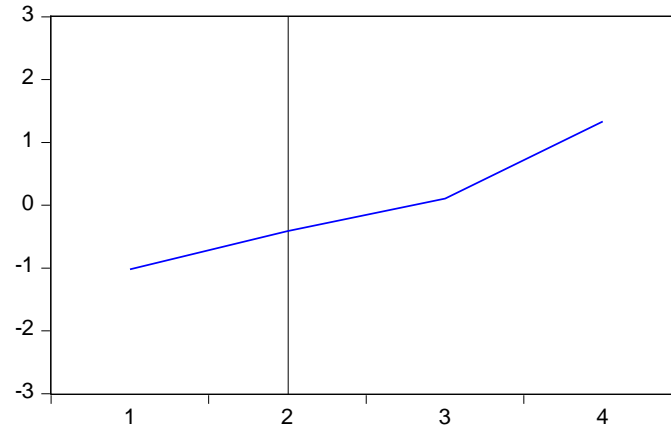


Evolution of Key (Normalized) Variables for Commercial Banks around the JDX and the NDX

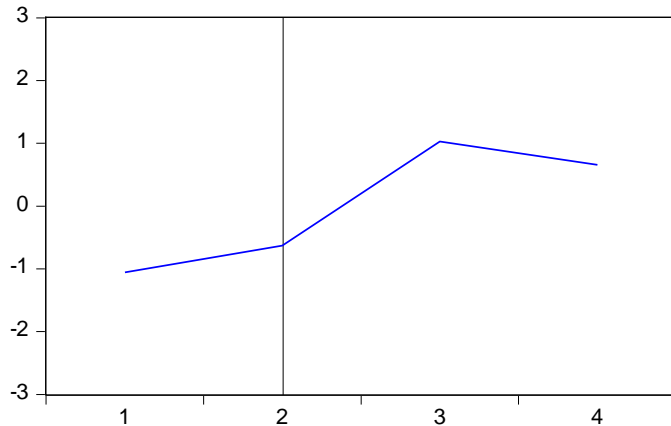
Capital Account (JDX)



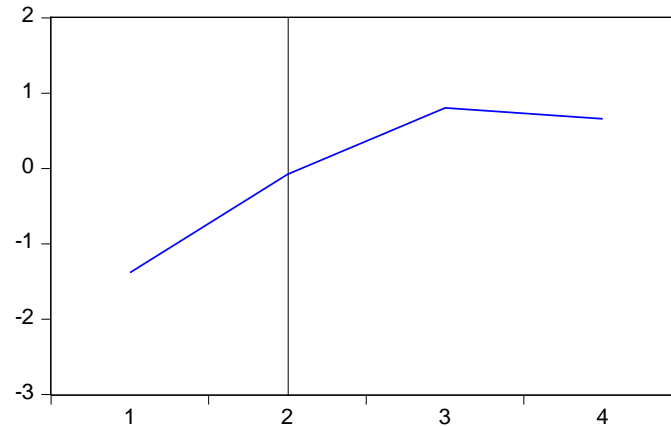
Capital Account (NDX)



Deposits (JDX)



Deposits (NDX)



Note: Quarter 2 on x-axis represents the period of the debt exchange

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